RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Nov. 20 DJIA 1913.63; PTI 2618; A-D Ratio -12.12
Nov. 27 DJIA 1910.48; PTI 2613; A-D Ratio -12.00
Current Dow Yield: 3.59%; Dow P/E: 15.1

IS IT REALLY A BEAR MARKET?: Everybody's fighting the bear. All I've read in the last couple of weeks are optimistic articles in various magazines, newspapers, and brokerage house mailers -- articles telling me that the economy is really in good shape, that "Black Monday" was "a computer-program mistake," that "Dow 3000" is still in the cards, that "US growth in 1988 will maybe be 2%, instead of 3%," that we've seen a repeat of 1962 and that all's well on the financial front. *Barron's* continues to publish interviews with assorted optimistic stock-pickers, and *Fortune* magazine's economists reassure us in issue after issue that all is well and that it's onward and upward for the US economy.

Forbes (Nov. 30) has a lead-off article entitled, "The Stock Market is a Lousy Economic Forecaster." Then in the same issue Mark Hulbert takes up his entire *Forbes* column on the question of whether I made a correct Dow Theory call and whether this is really a bear market ("Maybe the bull market is still intact, despite predictions to the contrary."). It's almost as if prove Richard Russell wrong and somehow the bear market won't exist. Honest, Mr. Hulbert, I don't make the market, I just try to call the turns.

Let me put myself on record again -- I am convinced that the Dow Theory provided an authoritative bear signal on October 15. I am convinced that we are now in the early stages of a major bear market. When I see how FEW people believe this, I also see that this is going to be one long, painful, costly bear market. Why? Because it takes time for people to turn from bullish to bearish and it takes time before people turn from being buyers to being sellers. This bear market will end when almost all of today's stubborn bulls become sellers or have sold. The way it's going, that's a long way away.

On another subject: I've received a lot of publicity over the past month, and we've been (pleasantly) flooded with new subscriptions. So I'd like to say a few words to my new subscribers. (1) Unlike a lot of advisories, I don't recommend stocks to buy during primary bear markets. Buying stocks in a bear market is a ticket to patched pants and a thin wallet. (2) I don't usually recommend shorts for my subscribers -- even in a bear market. I know (from long experience) that the vast majority of people don't do well trading in bear markets -- either for the rallies or the declines. Shorting in a bear market requires near-perfect timing, and few traders are good enough (or lucky enough) to time their trades successfully. (3) Whatever I'm thinking or doing I discuss in these reports. I don't hide my thoughts or think one thing and do another. It's all here in the Letters. (4) Parts of these Letters may sound like Greek to you, but it's important that you try to understand what I'm discussing. In other words, don't just read the Notes & Quotes. Over the course of any given year, I try to explain all the techniques and methods I use -- so please be patient. (5) I stopped years ago trying to be a genius (and believe me, I tried to be one). All I offer now is my best -- no more than that. But I do promise you my best. (6) When I'm wrong (and I will be), I promise to say so in a hurry -- in clear, concise English. If I don't know what's happening or if I'm confused (which occurs often), I'll say so too.

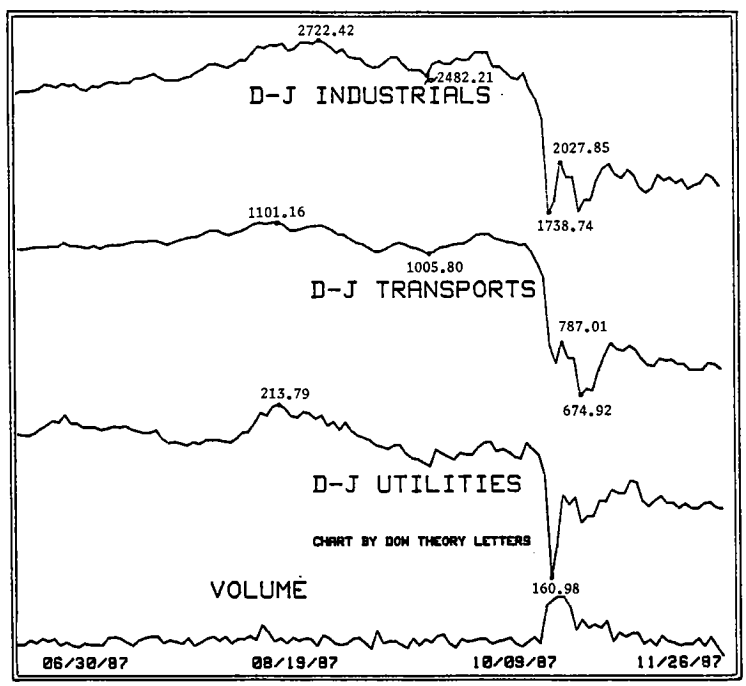
THE PICTURE: The Fed has opened the monetary floodgates. A few weeks ago the M-1 money supply jumped $9.1 billion -- in a single week. That's the biggest jump I can remember. With the Fed's re-liquefication strategy, many analysts are now predicting that the US economy will grow nicely at maybe a 3% or better rate next year and a few are openly predicting a boom.

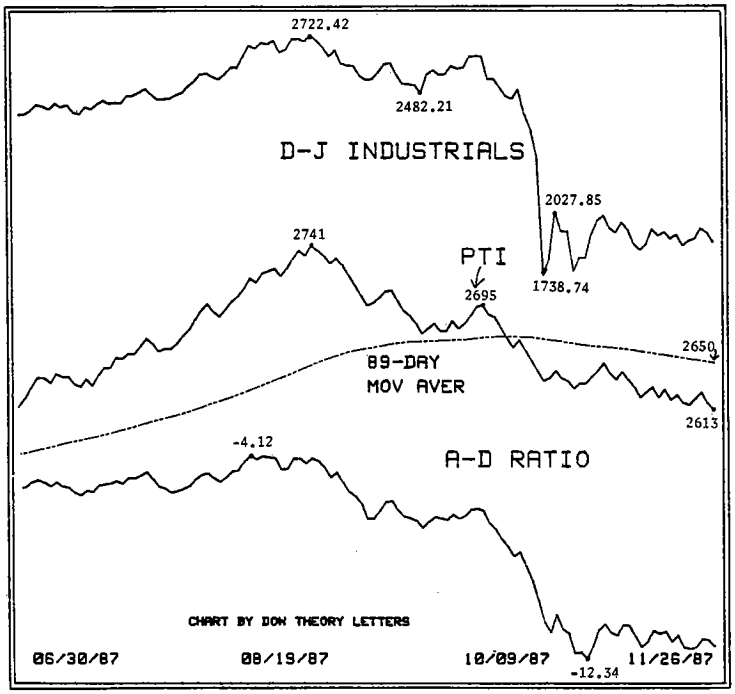
Furthermore, these optimists reason, if a boom is in our future, why heck, stocks have got to be a buy. But what these people don't realize is that the stock market knows all about the Fed's efforts, it knows about Mr. Greenspan's inflation fears, the coming election, the expanding money supply -- plus a thousand other items that the average economist never even dreamed about.

When the Dow Theory signaled a primary bear market it was telling us that something had changed. Expanding money supply or not, a lower federal deficit or not, rising US exports or not, lower interest rates or not -- the tide, the great tide of the market, had turned.

To continue, when the Utility Average topped out last January it was telling those of us who would listen that there was going to be trouble somewhere ahead in the market and more specifically in the monetary sphere. When the advance-decline ratio hit its bull market peak last March it was telling us that the majority of stocks had discounted the best that could be seen ahead. When the D-J Transportation Average hit its bull market high on August ll and when the Dow hit its bull market high on August 25, they were saying that the Averages had discounted the BEST that could be seen ahead.

When the best has been discounted and fully reflected in the price structure, the markets begin a new process -- the process of reflecting the other side of the coin. At that point the Averages begin the painful process of discounting the worst that can be seen ahead.





Now this is important, and I want my subscribers to understand it fully. The market doesn't run on a schedule (much as we might like it to). The worst may, it just may, take a long time in coming. The bad times might not show themselves for six months, nine months, or a year. In fact, in a month or a few months hence, we could even get a resurgence of hope about the economy and in the stock market which might carry the Averages halfway back (conceivably even more) toward the old highs.

But for those hoping for a new high in the Dow or in the Transports or in the A-D ratio or in the majority of stocks, I'll say right now: "Forget it, you're dreaming, it isn't going to happen. You've seen the highs -- you've seen the highs for a long time to come. That's what the bear market is all about."

Remember, the bear is deceptive, he is cunning, he is merciless, and he wants to take this market down, down, down, with as many investors in it (all losing money) as possible. How's he going to do that? He'll do it with HOPE. The bear wants more than anything else to keep investors' hopes alive. And the bear uses "good business" propaganda, up-beat political gobble-de-gook, pleasant presidential speeches, basic human optimism, and intermittent stock market rallies (often violent rallies) -- all in an effort to keep investors' hopes alive.

Do you remember (I'm referring to the early part of the great bull market) during 1974 to 1982 and again in 1984, how the bull tried to mask the fact that it was a continuing bull market and how the bull tried to disguise the fact that stocks were a great buy? Well, the bear is trying to do the same thing here in 1987 -- but in reverse. Today the bear is doing everything in his power to disguise the fact that we are in a primary bear market and that stocks are a sale.

And most likely, as far as the majority of investors are concerned, the bear is going to be successful. The bear will keep us wishing and hoping until the last bullish holdout is destroyed, and until the bearishness of the situation is totally out in the open for all to see. When that happens, when the gloom is so black you can cut it with a knife and when the stock sellers are totally exhausted, when that happens -- a new primary bull market will be born.

Conclusion: Again I want to impress you with this thought -- *Time is against you when the primary trend is down. In a bear market, values diminish though time.* Therefore, the longer this market backs and fills without breaking out on the upside, the lower the odds that it will break out on the upside. So remember this fact about the bear market and engrave it in your psyche -- **VALUES DECREASE THOUGH TIME IN A BEAR MARKET!**

INVESTMENT POSITION: The bear is master of the box, and I'm afraid that that's going to be the situation for a considerable time to come. A lot of people are now playing for a big rally, and it may come along. But messing with bear markets is a tricky business and not my cup of tea. (I learned that the hard way -- from experience.)

Enough of what I think, what did I do? I guess most subscribers know that I've personally taken a position in high-grade muni bonds. I like the tax-free interest, and I have a scenario. My scenario is that somewhere along the way (as business weakens both here and abroad -- it's happening already in Germany), we're going to see a concerted international move to lower interest rates -- maybe lower them a lot. At that time high-grade bonds should take off (they've already come up a considerable distance off their lows).

If or when that happens, I'll probably be a seller of bonds. At this point, I've got all the bonds I want, and from here on I'm building up cash -- plus I'm continuing my program of monthly purchases of bullion gold coins. Note: Of course, if we experience another drastic dollar collapse, all bets are off on a bond advance -- but then those gold coins come into their own.

Ned Davis just released a study showing that since 1929 **ALL** bear markets which erased 30% or more from the Dow have been followed by recessions or depressions. That includes 1929-32 (Dow down 89%), 1937-42 (Dow down 52%), 1968-70 (Dow down 36%) , 1973-74 (Dow down 45%). In 1987 we have seen the Dow down 36% so far. Will there be a recession? Don't bet against it (yeah, I know, "this time it's different").

DOW 1700, A CRITICAL AREA: As veteran subscribers know, I use many vehicles in my never-ending struggle to uncover the mystery of the market. One of these is point & figure analysis. Point & figure deals strictly with **price,** and it takes no note of any other "extraneous" items. According to P & F theory, all other phenomena such as volume or time are simply a by-product of price.

Whether you accept the P & F philosopy or not, one thing P & F does -- it concentrates the price action and shows more clearly than any other technique, the various areas of support and resistance.

The accompanying chart is one that I redrew from Chartcraft's library (Chartcraft, New Rochelle, NY). This is a 20 x 60 chart. Each box on the chart represents 20 Dow points, and only rallies and declines of 60 points or more are depicted. The Xs on the chart represent rallies, the Os represent declines.

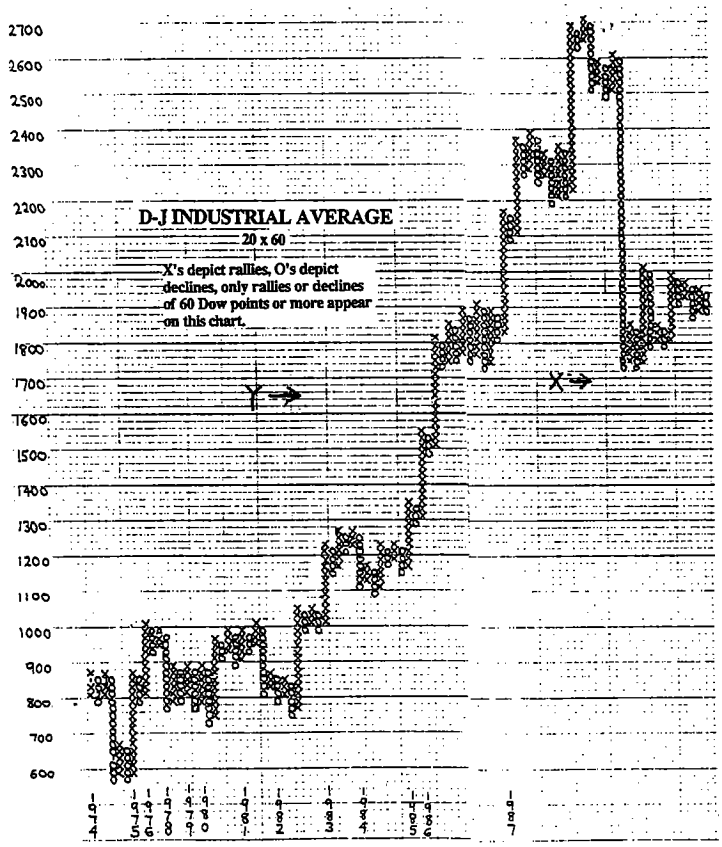
The entire bull market from the 577 low of 1974 to the 2722 high of 1987 is shown on this concentrated chart. But the reason I included this chart was to show the critical importance of the **1720** area on the Dow. Twice in 1986 the 1720 area provided support for the Dow, forming a base for the huge rise into 1987.

Then during the crash the Dow twice more bounced off the 1720 box on the chart. Following the crash bottom, the Dow rallied up to the 2020 box (on October 21) before dropping sharply.

As matters now stand, a rise by the Dow to the 2040 box would constitute a bullish signal, signifying that the Dow was probably going to fully correct 1987's bear market losses.

On the other hand, I would consider any forthcoming Dow decline to the 1700 level (X on the chart) to be an extremely important sell signal. The reason I say that is because any Dow decline to 1700 would violate four preceding lows as seen on the chart.

"50% Principle": The late, great Dow Theorist, George Schaefer, told me that he always took careful note of what the price



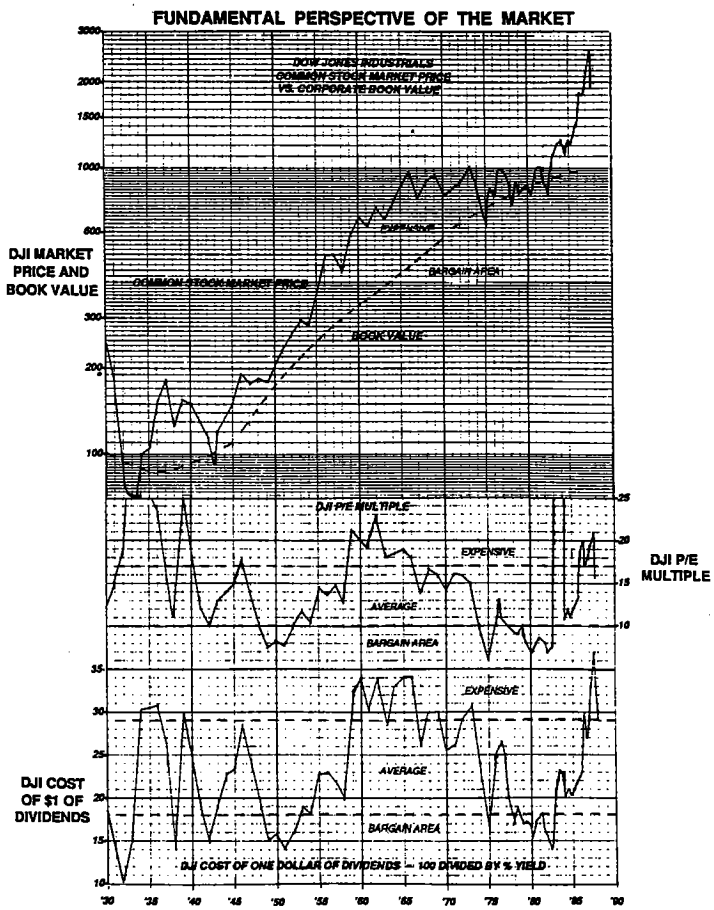
movement did at the halfway level of any major advance or decline. George told me that he dug the 50% Principle out from the writing of Charles H. Dow, and he always referred to it as Dow's 50% Principle. I've followed the 50% Principle over the years, and I've found it to be a valuable addition to Dow Theory (although many technicians mis-apply the Principle today).

According to the 50% Principle it is a hopeful sign if the price movement can (during any bear market decline) retain half of its previous bull market gains. If half the gains can be retained, then in due time there is a possibility that the price action will return to the vicinity of the old bull market high.

Conversely, it is an extremely bearish indication if any bear decline wipes more than half of the previous bull market gains. If more than half the gains are erased, then there is a good chance that the bear market will (in due time) come down to test the lows from which the preceding bull market started.

I believe it is time to apply Dow's 50% Principle to the current bear market. The halfway level (marked Y on the chart) of the entire 1974-87 bull market (Dow 577 to 2722) is 1649. If the Dow (at any time during this bear market) were to come down to the 1700 level, such a bearish decline (which would violate four previous lows) would almost certainly take the Dow further down -- to below 1649. A violation of the 1649 halfway level of the preceding bull market would imply that the great pendulum or market balance had turned ominously bearish. In that case, I would expect a further disastrous decline with an accompanying severe recession and probably a depression.

VALUES: Back in the early 1940s my father and I used to study the financial statistics for various New York City buildings -- with the idea of purchase. My father was a life-long real estate man, and he knew his stuff -- from A to Z. Those were the depression days, and my father's criteria were tough: (1) the building had to be in fair shape, (2) it had to show a profit with an occupancy as low as 50%, (3) the annual return on our purchase price had to be 25% or better.



You think we had trouble finding New York real estate that fit those strict criteria? Forget it — there were hundreds of buildings for sale in New York that checked out on my father's criteria. The buildings were there all right. The hard part was finding the money!

I couldn't help thinking of these "great value" days and comparing them with today. An interesting comparison comes to mind as I read the (to me insane) prices being paid for great art. For instance, Van Gogh's "Irises" was just auctioned off for a total price of $52 million.

Now I love Van Gogh, I've studied him, I've been a life-long admirer of his painting. Van Gogh, Seurat, and Gauguin practically invented "modern painting." But $52 million for "Irises"? Here's what that means to me.

If I invest $52 million in T-bonds at 9.25% I get a return of $4.8 million a year. That boils down to $13,150 per DAY. That's what it cost the person who bought this painting in terms of income (or income he won't receive) -- $13,150 every day!

Now I admit that no one can put an absolute value on a Van Gogh, but that's the way I think of the price paid for "Irises." My opinion: The painting was bought for an absurd price, but the price is indicative of what's happening in the world of great art today. Russell prediction: In our lifetime, you'll see the price of art crash back to earth. Count on it.

Speaking of value, Switch Fund Advisory (1385 Piccard Dr., Rockville, MD 20850) for many years has published a chart that I have found useful in gauging the Dow on a value basis. The chart shows the Dow in terms of book value, price/earnings ratio, and yield.

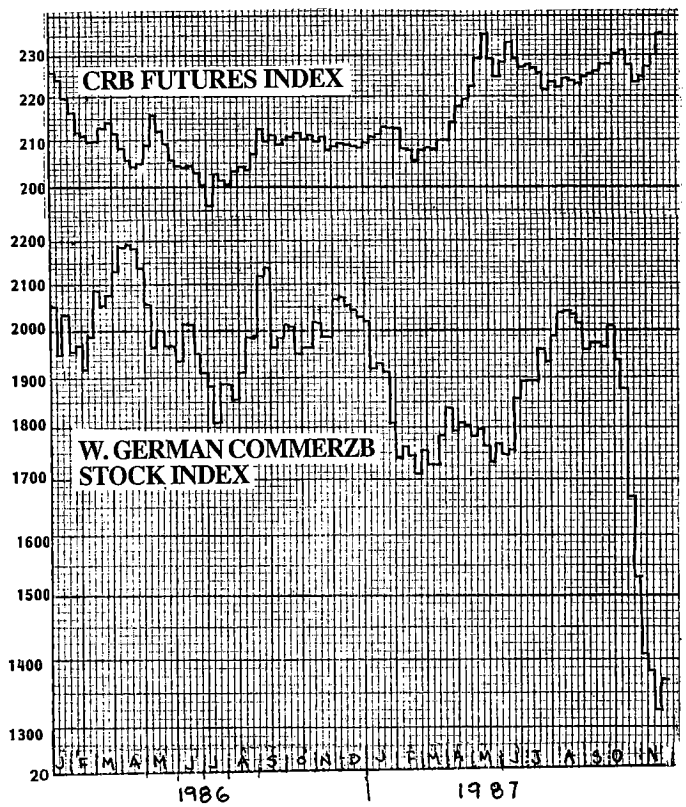
The chart shows the Dow is still very expensive on a book value basis. On a P/E basis the Dow (at around 15 times earnings) is currently just below the expensive zone. And on a dividend return basis the Dow is still expensive. Before this bear market is over, I

expect all of these measurements to have dropped into the "bargain" area.

CHARTS: Every week I go through my dozens of weekly (Friday closings) charts in an effort to detect important trend changes. Here are two significant charts: The first is the CRB Commodities Futures Index. Over the past few weeks this index has been pushing up. When the CRB rises, inflation fears rise with it.

One reaction was a sudden pop in gold last week and a little swoon in the bond market (both of which, of course, are super-sensitive to inflation). I've said this before but I'll say it again. *At the first sign of inflation, we're going to see bonds drop, interest rates rise, and the stock market falter or head down.* The days when the Fed could "inflate the monetary balloon" with impunity are over -- finito, kaput.

Next chart: This is the West German stock index. Germany's stock market did not participate in the 1987 excitement. But it certainly joined in the '87 collapse. Since the early-1987 high, the German market has been almost cut in half. Germany is on the edge of recession now with unemployment over 9%. But Germany would far rather have recession than inflation, despite rising unemployment in the Fatherland. Germany has often been called the key to the European economy. If so, trouble is brewing.



ALL OUR SONS: A few weeks ago a reporter from *US News & World Report* called me for background material on the market letter business. The reporter wanted to know what I thought would happen to advisory letters during this bear market.

I told her that I thought it would be a long bear market and a tough bear market. In the end, I said, one-half to two-thirds of all the current advisory publications would be out of business.

The surprised reporter asked me why in the world I felt that way. I told her I made that pessimistic statement: (1) based on my observations during past bear markets such as 1957, 1966-68, and 1973-74; (2) based on the fact that 95% of the advisories did not get their subscribers out of the 1987 bear market crash, an omisson which undoubtedly made their readers unhappy, and (3) based on the fact that stock market investors as well as advisory readers tend to exit the whole Wall Street scene during bear markets.

I ended by telling her that in this business the only thing worse than missing a bear market crash is missing a bear market crash and then pretending that somehow "that you saw it coming" (when all your subscribers know that you were wildly bullish the day before the crash).

The reporter then asked me who would take over when all these advisories hit the dust? I told her that I didn't know, but if the past is any guide, new advisories will arise from the bear market ashes -- in time for the next bull market. And that got me to thinking. I have a nine-year-old son, and a very smart Stanford-graduate wife, and I have four daughters. And secretly, I hope that some day one of these guys or gals will take over and continue my work with the Dow Theory. But deep in my heart I have to admit that I have doubts.

I have doubts because in all my years in this business I can't remember a son or daughter or wife ever taking over from a advisory publisher and successfully carrying on. Unfortunately, neither do I know of any case where a father who was versed in Dow Theory produced a son or daughter who was talented at applying the Theory.

Why is that? Why can't the ability or instinct or art (or whatever you call it) be passed on. The other day I told my son, Ryan, "You know, pretty soon I'm going to write Dow Theory Letters number 1,000. That means you'll have four or five thousand pages of my thoughts and my analyses to look over and study -- IF you ever want to learn about the stock market and how your old man struggled with it."

I continued, "With all that writing, you'd have it a lot easier than I did when I started. I had to dig out the Dow Theory and my market knowledge from hundreds of different books and articles. I spent months in the New York Public Library just sifting through items that I thought might help me understand the market. But you've got the advantage of a whole lot of information all in one place."

But to be honest, I'll be surprised if Ryan becomes a stock market writer. I don't think he's got "the big hunger." I don't think he's got the obsessive desire to ferret out the secrets of the market. I don't think he has that burning in his insides to learn the language of the stock averages and the advance-decline ratio and the volume implications and the track of the bull and the bear through the labyrinthian history of Wall Street.

But maybe I'm wrong. Maybe Ryan or Faye or Betsy, Daria, or Lauren will have the spark, that strange, crazy, relentless Wall Street spark -- even though I know that the odds are 500 to 1 against it.

NOTES & QUOTES: The interview with Arnold Schwarzennegger in the current issue of *Playboy* is fascinating. Here's an Austrian who arrived in the US in 1967 with no more than a gym bag and a limited knowledge of English. He turned a laughed-at activity (body building) into a serious sport, went to acting school, became a movie star (four films each grossing over $100 million), married the beauty of the Kennedy clan, and he did it all with intelligence, talent, business sense, and good taste. And he did it his way — with a last name nobody can spell.

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Scarred by the Past: The Germans were wiped out by the great inflation of the 1920s. So it's no wonder that the 1920s disaster is deeply imbedded in the German psyche. Today inflation in Germany is less than 1%. But Germany's deep-seated inflation obsession is frustrating the US, which is trying to get the Europeans to jazz up their economy. A frustrated Treasury Secretary Baker said recently, "The Germans see inflation under every rock, every pebble. They see nothing else."

On the other side of the fence, the US was scarred horribly by the Great Depression of the 1930s and its accompanying deflation. That, probably as much as anything else, allowed for 40 years of pump-priming and inflation in the US. "Anything rather than

another deflationary depression" has been the US motto since WW II. That plus America's obsession with full employment and perpetual wage boosts set the stage for today's debt and deficit fiasco in the US.

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Quote of the Week: From Sen. Daniel Moynihan when he stated that history will remember the Reagan years of the 1980s as a decade when the US "borrowed a trillion dollars from Japan and threw a party."

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Thought of the Week: US politicians are, if nothing else, super-sensitive to public opinion. It was David Stockman who said that the reason the federal budget is not cut is that there is no real public pressure to do so. I agree 100%. The American people are totally passive where the budget is concerned, and the politicians know it. That's why the boys in Washington produced the watered-down, insipid agreement on the budget a day before the Gramm-Rudman cuts were to take effect.

But there's another reason why there's been essentially no real progress on budget cutting. And that's because there's been no leadership from the White House. In the end, the only pressure to cut the deficit has come from the stock market (via Black Monday). As the hipsters so crudely but correctly put it, "Money talks and BS walks."

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Speaking of leadership, is President Reagan (1) senile, (2) not too bright, (3) basically incompetent, (4) running out of luck, (5) simply lazy, (5) chronically passive, (6) tired of being president, (7) out of Teflon? Take your choice, but one thing is sure: The cartoonists are having a field day with the Prez. Here's one from Esquire that is almost too near the point to be funny.

Does Japan have a stake in the US? Better believe it. Here are 1987 figures from the Treasury Dept. Japan owns $10.2 billion in US corporate bonds, $12.9 billion in US stocks, $26 billion in US direct investments (real estate, businesses, etc.), and $69.6 billion in US government securities. Total: $119.1 billion and climbing weekly.

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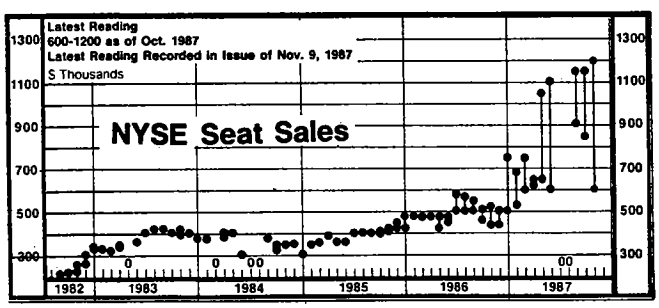
It isn't all fun and games for the the guys and gals on Wall Street when a bear market hits. In fact, the old adage runs, "When the bear market arrives, Wall Street gets hurt first -- and the rest of the country follows." One place Wall Street gets hit is in the price of a seat on the NYSE. From the high of $1.2 million before the crash, the price of a seat dropped to a recent low of $600,000. On top of that, Wall Street is laying off its people in wholesale quantities. The Street is wisely preparing for hard times.



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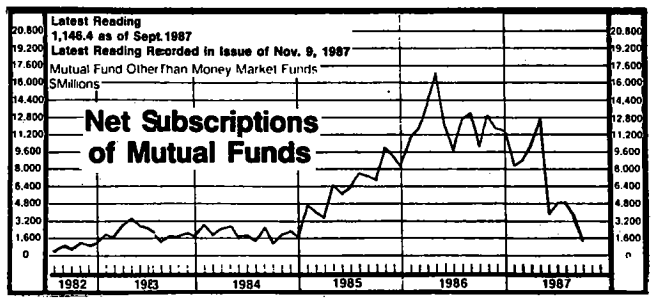
Meanwhile, net subscriptions of mutual funds are caving in. And that again means a "belt tightening time" on the Street.



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This from a letter just received from old friend and stock market student, Dr. Sloan Wilson (author of "Borrowed Money and Stock Market Trends"). Sloan writes: "How far has the public over-extended? Perhaps margin debt, NYSE, will give us some slight idea. In December, 1974 it was $3.8 billion. By the end of September 1987 it was $41.6 billion. Usually the bank loans to brokers and dealers equals this amount. Imagine, a margin debt of at least $41 billion. What an explosive increase from '74 to '87! Something had to give!"

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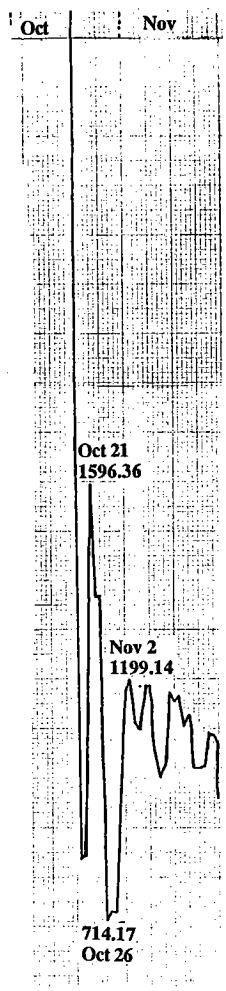
DowPow (literally "Dow power") is my proprietary indicator. *It is the Dow adjusted for the action of the A-D ratio.* I consider DowPow an extremely important indicator since it is (1) based strictly on market action, (2) based on two of the most important items, the Dow and the daily advances and declines, (3) because it cannot and is not followed by any other investment service, and (4) because it provides us with a fundamental but different view of the market. Please refer to the long-term chart of DowPow for an overall perspective of DowPow (see last Letter, page 4).



The chart I show here depicts the daily action of DowPow starting midway in the October crash up to the present. The 1987 high for DowPow was 4149.00. The crash action began at roughly 3700 and took DowPow down to 840. DowPow rallied sharply for two days to an October 21 high of 1596.36, and then dropped to a crash low of 714.17 on October 26.

Following the crash low (and this is important) DowPow pushed up to a November 2 peak of 1199.14. Since then or during the rest of November DowPow has been moving sideways but under its November 2 peak and FAR BELOW its October 21 crash-recovery peak.

If a full recovery of the crash losses is to occur, DowPow will have to better 1199.14 first (Nov. 2 peak) and then 1596.36 (the Oct. 21 peak). If that's fated to happen, both the Dow and the A-D ratio will have to show consistent strength, something neither has done so far (the A-D ratio, representing the majority of stocks, has been particularly lagging).

As I stressed in the last Letter, values diminish through time during a bear market. This is a fundamental concept that I want all my subscribers to keep firmly in mind. Applying this principle to

the current market, the longer the elapsed time without a rise by DowPow above 1199.14 and then above 1596.36, the better the chances that this market is going to head down.

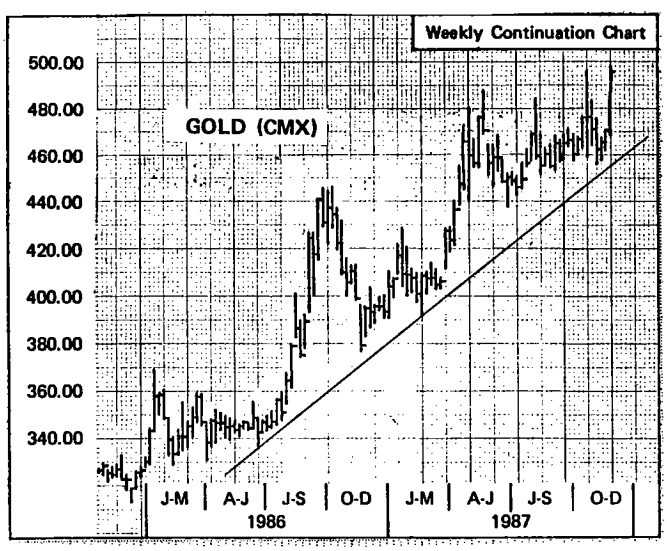
In closing this section, I want to make the following comment. It is clear to me that the great majority of analysts and certainly the public have failed to understand that the primary trend of the market is now down. The airways and the various financial publications are filled with talk of this being "bargain time following the crash." Consequently, all sorts of stocks from blue-chips to cats-and-dogs are being listed as "great buy candidates."

When the primary trend is down, there are no bargains. Purchases, if held long enough, will turn into losses. Thus, the situation today is exactly opposite to that which exists during a bull market. Why do people refuse to comprehend this? Answer: (1) Because we are still in the early stages of the bear market, and business is still quite good in many areas. (2) Because bear markets go down in periodic drops, and in between drops investors' hopes rise anew. (3) Because most people are incapable of envisioning change. They are still living in the past (during bull market conditions) when stocks always came back. They do not realize the conditions have changed and that the bear is now in command. (4) People tend to believe what they see and read, and all the various "experts" and "gurus" continue to recommend stocks for purchase (in what publications have you read that this is a time to be liquid and in cash?)

GOLD: This chart (courtesy of Dunn & Hargitt) pretty much tells the story. Despite anything you might have heard (and you've probably heard a lot -- mostly nonsense), gold has been in a bull market since early 1985. From a price of 284 in February 1985 gold has climbed sporadically but relentlessly to just below 500. The gold shares have been much more volatile. For example, the gold/silver index (XAU), after climbing precipitously from a 1986 low of 56 to a 1987 high of 156, broke almost in half to an October '87 low of 89. The week ending Nov. 27, XAU climbed from 92 to 120, an incredible one-week rise of 30%.

What's happening? Obviously, the people of the world are terrified about the continuing collapse of the dollar. Furthermore, they're wondering if they can put complete trust in any paper currency. Therefore, there's been a move into gold. The value of every paper currency in the world is based on the amount of confidence people have in the government which issues that currency (which explains what's been happening to the dollar).

But gold is the ONLY real money. When you own gold you don't have to have confidence in Reagan or Washington or the US Congress or even the Swiss or Japanese governments. Gold possesses something that no paper currency has -- intrinsic value. It takes capital, sweat, brains, and man hours to produce gold. All it takes to produce dollars or yen or marks is a special kind of paper and a big printing press.



In return for a riskless investment in gold (riskless because gold never goes bankrupt), you forego any interest. That's the cost of insurance if you want to own real money. What -- you think that's too a high price to pay for owning gold? Ask the Mexicans or the Brazilians about that one.

Russell advice: Continue your program of monthly purchases of bullion gold coins as per my instructions over the past few years. Those coins look good, they feel good, and they're worth a lot more now than when we started.

LATE NOTES: Subscribers occasionally ask me why I don't have a "hot line." My answer is that I don't run a "hot service." Instead, I try to present the market picture weeks or months before it happens. I haven't met a rich investor yet who depended on getting in or out of the market within a day or two to make his profits. That's "in-and-out traders" stuff, and most of the guys and gals who try it (unless they are floor traders) end up supporting their brokers, not their families.

We had plenty of time to get into the market in 1974 (although I did send a "Special Report" out in December, '74) and we had time to buy in '82 and '84. As far as selling, I recommended getting light and then getting out of stocks in Letter after Letter in 1987, and nobody needed a hot line or a special telegram to understand what I was saying. Finally, I did give the points for a primary bear market signal (which materialized on October 15).

Interestingly, if you look through *Barron's* or *Investors Daily* right right now you'll find only one bear pictured in any advertisement. That bear belongs to Dow Theory Letters. When the advisories and Wall Street finally admit that a major bear market is in progress, you'll see a lot of bearish ads. By that time, the bear market will be so obvious that even Reagan will grow mildly cautious.

The markets were not taken in by the disgraceful and cowardly performance of Reagan and the jokers of Congress at the so-called "budget summit" (whenever they call it a summit, you know nothing will get done). The market's reaction to the summit was hardly encouraging -- it swooned.

For years we've been told that the debts and deficits that this generation has been generating will be thrust upon future generations. I don't know for sure, but I think we make wake up to find that the FUTURE IS NOW.

The markets are saying that they don't give a damn whether our pussy-footing Washington politicians win their next elections or not. The markets are saying -- cut the deficits or we're headed due south. The financial masquerade is over; the bill for 40 years of free lunches is being presented. It's a bill that demands that we slash government and consumer spending and start saving. It's a bill that spells recession, hard times, a return to competition, and lowered standards of living for Americans.

What about the new inflation fears? Those fears jibe with the current widespread opinion that the US economy is still expanding and healthy. Those perceptions will CHANGE as the bear market wears on. By early or mid-1988, business will be contracting and today's inflation fears will be a memory.

Only four Dow stocks still show gains for the past six months (this is a good test of relative strength). The four are Merck up 12.7%, AT & T up 11.3%, Philip Morris up 8.8%, and MMM up 0.9%.

The price/earnings yield (earnings divided by price) for the Dow is now 6.62%. Barron's AAA-rated bonds yield 9.52%. Historically, stocks are fairly priced when the two are about equal. Today stocks are still overpriced compared with bonds.

The week ending Nov. 27 saw a new low Friday close for the PTI, the Dow and S&P 500 -- bearish. Monday saw a new low in the A-D ratio and new lows in the dollar. Those who thought that the October crash was a mistake may soon think differently.

NEXT MAILING: Dec. 16